FARMERS' NEWSLETTER
Real Estate

August 79/G-7

Farm Real Estate—a Good Investment

Today's rapidly rising farmland prices and soaring interest rates are enough to make most any potential buyer hesitate.

But in recent years, investors in farm real estate have fared considerably better than those who chose to put their money in common stocks or long term bonds.

It's true that net income returns from farmland have averaged only about 5 percent a year since 1970--not enough to even cover interest rates. But the table on page 2 shows capital gains have proven a major source of returns to farmland investment.

As farmers well know, these kinds of gains provide no cash flow to help meet loan payments. Nevertheless, they do boost the amount of collateral you can borrow against and increase your net worth.

Farm values have risen far faster than the rate of inflation, and farmland purchases should remain a good hedge against inflation this year. While inflation may be up around 10 percent for the year, farmland values are expected to rise faster--about 14 percent.

This is only slightly below the average annual gain since 1972, when a sharp surge in exports set the stage for new trade levels and sent farm income to record highs.

FARMLAND VALUES UP 14 PERCENT°

° Percent change in average value of farm real estate per acre, Feb 1978 to Feb 1979
* Average increase for New England States
△ Based on average of percentage change in Georgia and Alabama index values
▲ Average rate of change for irrigated and dry cropland and pasture land for the 4 Southwestern Mountain States

Last year, farm real estate values climbed as much as they're predicted to rise this year: 14 percent nationwide for the reporting year ending on February 1, 1979.

All sections of the country, of course, did not share equally in the increase.

Ohio, Nebraska, Arkansas, Colorado, and California, for example, all reported gains of more than 20 percent.

However, an acre of farmland in Utah, Arizona, New Mexico, and Nevada brought an average of only 7 percent more.

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Principal contributor to this issue:
David A. Lins (217) 333-0368

CAPITAL GAINS OUTSTRIP INTEREST RATES

Year	Annual income return	Capital gains or loss return[1]	Interest rates[2]
		Percent	
1970	4.20	4.22	8.62
1971	3.98	8.11	7.70
1972	5.43	12.30	7.38
1973	9.79	23.50	7.75
1974	6.01	12.91	8.57
1975	5.19	13.70	8.76
1976	3.61	16.55	8.57
1977	3.33	9.02	8.27
1978[3]	4.49	12.25	8.58

[1] Primarily unrealized gains or losses not adjusted for capital gains tax. [2] Average fourth quarter rates charged on new Federal land bank farm real estate loans. [3] Preliminary.

Demand To Stay Strong

This year as well, not all States will see their land values appreciate at the same pace. Differences will be tempered by supply and demand conditions for various farm products.

But nationally, strong prices and big harvests for wheat, feed grains, and soybeans, and improved livestock receipts are expected to boost 1979 net farm income to between $30 and $34 billion.

Agricultural exports play a key role in this year's higher income picture. Foreign buyers are expected to take a record $32 billion in U.S. farm goods during the year ending with September 1979, up 17 percent from a year earlier.

Prospects in the USSR and Eastern Europe point to continued heavy demand for U.S. feed grains and wheat--which could push our total farm exports even higher during the marketing year beginning October 1, 1979.

Historically, strong export sales and sharp increases in farm income have spurred activity in U.S. farmland markets. Transfers rose dramatically during 1944-48 and 1972-75, periods of relatively high farm prices.

But while past trends point to an active farm real estate market this year, there may not be enough land on the market to generate more sales.

Land transfers have been down for the past few years, and farm real estate reporters surveyed this spring noted little change in the number of farms offered for sale. So while higher income may stimulate buyer interest, a shortage of listings adds upward pressure to prices.

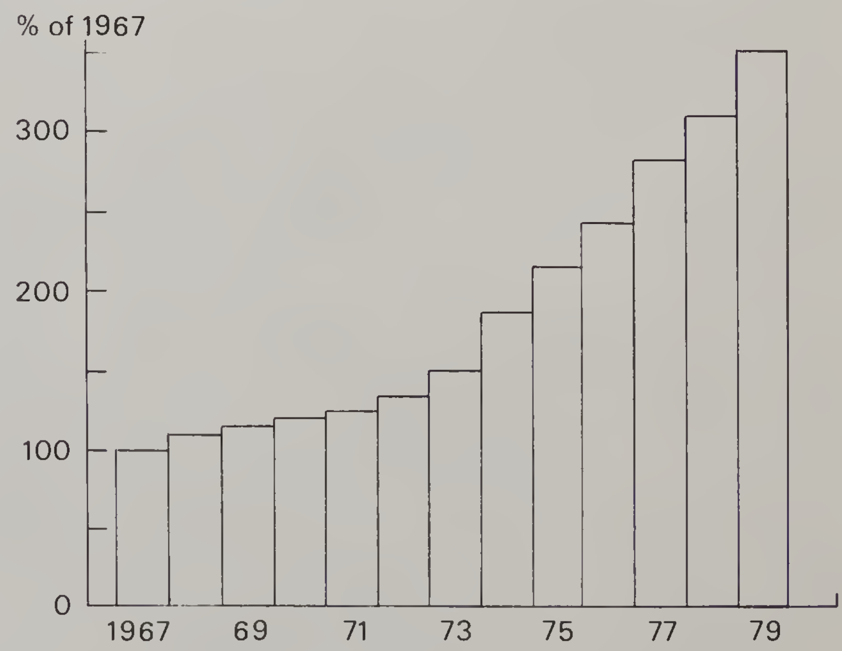
During the year ending last February 1, the rate of farm transfers dropped 5 percent to just under 40 tracts per 1,000 farms. When you combine this with 2 percent fewer farms, the total number of tracts changing hands slipped 7 percent to 85,600.

Who's in the Market?

You may have concerns that absentee owners are moving heavily into the farm real estate market, buying up land and bidding up prices beyond the reach of many people now in farming.

The table on page 3 shows that absentee buyers--those living in another county--accounted for 13 percent of the value of farmland changing hands in 1978.

BIG JUMPS IN FARMLAND VALUES BEGAN IN '72



Reported as of March 1, 1967-75, and February 1, 1976, to date

WHO'S BUYING FARM REAL ESTATE[1]

Region	Tenant	Owner-Operator[2]	Retired Farmer	Local Nonfarmer	Absentee[3]	Other
			Percent			
Northeast	16	47	1	9	11	17
Lake States	17	58	2	8	9	7
Corn Belt	15	65	2	7	7	4
Northern Plains	16	60	2	6	10	8
Appalachian	7	50	4	10	19	10
Southeast	5	63	4	8	14	7
Delta	6	59	1	6	18	10
Southern Plains	12	49	1	8	21	8
Mountain	9	52	1	8	23	6
Pacific	9	63	1	7	13	7
48 States	12	59	2	8	13	7

WHO'S SELLING

Region	Owner-Operator	Retired Farmer	Estate	Local Nonfarmer	Absentee	Other
			Percent			
Northeast	56	11	13	8	11	3
Lake States	58	14	13	6	6	3
Corn Belt	38	13	27	8	11	3
Northern Plains	39	16	25	5	11	4
Appalachian	40	11	23	10	9	7
Southeast	56	8	9	8	14	4
Delta	46	8	11	10	19	6
Southern Plains	40	8	20	12	13	6
Mountain	61	8	6	4	19	3
Pacific	59	8	12	5	15	2
48 States	46	11	19	8	12	4

[1] Percentage distirbution of value for year ending March 1, 1979. Percentages may not add to 100 because of rounding. [2] Includes part-owner operators and full-owner operators. [3] Buyers or sellers living outside of county.

But this doesn't mean absentee owners are taking over, since they also sold 12 percent of the value of farm real estate which changed hands last year.

Owner-operators remain the chief buyers of farm real estate. Last year, they bought 51 percent of all parcels sold, 55 percent of the acreage, and accounted for 59 percent of the value transferred.

Moreover, data show that active farmers are buying much more than they're selling.

During the last survey year, farm enlargement was cited as the reason for 63 percent of all farmland purchases. That was up from 58 percent the year before.

Credit Required Rising Sharply

Nowadays, the average operating unit sells for $251,000. Last year, a record 90 percent of all farmland transfers involved credit financing, versus only 67 percent in the early 1960's.

The farm real estate reporters surveyed in March generally thought that credit availability tightened during the past year, particularly in the Delta and Lake States, and the Northeast, as lenders became a bit more cautious.

While this caution prevails, indications are that credit will be available. But it will cost more. Just over 90 percent of the reporters expected rates to rise, 9 percent anticipated little change, and only 1 per cent felt that rates could drop.

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Interest rates on farm real estate loans climbed substantially last year. Federal land banks currently charge from 9.0 to 9.75 percent. During 1976 to 1978, average quarterly rates ranged from a low of 8.23 percent to a high of only 8.75 percent.

Since users must also purchase stocks in Federal land banks as a condition for borrowing, the effective cost of borrowing is somewhat higher. Most life insurance companies now charge over 10 percent.

Sellers, however, remain the chief source of credit. Together with Federal land banks, which report very brisk business in recent months, they supplied two-thirds of the farm mortgage funds last year. Meantime, lending by life insurance companies slipped to only a tenth of the market.

Strong Demand for Smaller Tracts

With more use of borrowed funds and rising interest rates, many farmers find they can't earn enough income from the purchased land to cover loan payments. Older farmers who may have accumulated sizable savings over the years usually can cope with this situation more easily than young farmers just getting started.

Quite often, the older farmers can use income from existing holdings or borrow against accumulated equity to finance the purchase of more land, while younger ones must rely on off-farm income.

The negative carrying charge on land has created a stronger demand for smaller tracts, since more potential buyers can make up the cash flow deficiency on a smaller purchase.

Sellers frequently split larger farms into several units to attract more buyers. The smaller tracts usually command higher prices.

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Foreign Investment Update

Foreigners who own U.S. farmland had until August 1 to report their holdings to USDA. That information will provide more precise data on land sales to foreigners.

Sales to foreign investors continue to capture a lot of attention, even though less than 3 percent of U.S. farmland changing hands each year is bought by foreigners. USDA's annual farmland survey last March indicated foreign investment is heaviest in the Sun Belt.

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